

## Message Text

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TO AMEMBASSY CAIRO

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C O N F I D E N T I A L STATE 182162

EXDIS

E.O. 11652: GDS

TAGS: PFOR, EINV, EG, US

SUBJECT: FORD BOYCOTT - FORD REPRESENTATIVES MEETING WITH  
DEPUTY SECRETARY

1. ON JULY 15 DEPUTY SECRETARY ROBINSON MET THE FOLLOWING  
FORD MOTOR COMPANY OFFICIALS: PHILIP CALDWELL, VICE  
PRESIDENT; E. P. WILLIAMS, PRESIDENT, FORD MIDDLE EAST AND  
AFRICA; AND J. WAYNE FREDERICKS, EXECUTIVE DIRECTOR, FORD  
INTERNATIONAL GOVERNMENTAL AFFAIRS, TO DISCUSS FORD'S PRO-  
POSED PROJECT IN EGYPT AND HOW FORD MIGHT PROCEED IN THE  
NEGOTIATIONS. POATS, SOBER AND BROWN PARTICIPATED AND CON-  
TINUED DISCUSSION AFTER DEPSEC HAD TO LEAVE. THE FOLLOWING  
ARE THE MAJOR ITEMS OF INTEREST DISCUSSED IN THE MEETING.

2. THE FORD OFFICIALS REVIEWED THE NEGOTIATIONS THEY HAVE  
HAD SO FAR WITH THE EGYPTIANS AND THE CURRENT IMPASSE THEY  
HAVE COME TO FOLLOWING SHAFEI'S JUNE 16 CABLE INDICATING  
QUOTE NO CHANGE IN THE LAW UNQUOTE PROVISIO AND FAHMY'S  
CONCERN OVER FORD'S LOW INVESTMENT AS TOO SMALL IN COMPARI-  
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SON TO THE POLITICAL RISKS EGYPT MUST TAKE ON BOYCOTT RE-  
MOVAL.

3. FORD BELIEVES IT IS NOW AT A WATERSHED IN THE NEGOTI-

ATIONS AND IT ASKED FOR THE DEPARTMENT'S GUIDANCE.

FORD BELIEVES THAT NOW THAT FOREIGN MINISTER HAS TAKEN THIS POSITION, FORD'S PROBLEM IS HOW TO CORRECT THIS MISINFORMATION WITH HIM AND ALSO THE PRIME MINISTER IN A CREDIBLE WAY. FORD IS SEEKING TO FIND OUT, WITHIN THE FRAMEWORK OF THE EGYPTIAN CONCERNS AND FORD'S FLEXIBILITY, HOW ITS PROPOSAL COULD BE MODIFIED. FORD INDICATED THAT IT IS PREPARED TO CONSIDER CHANGE AND COMPROMISE BUT WISHES TO BE MORE SURE OF ITS UNDERSTANDING OF EGYPTIAN POSITION AND MORE CONFIDENT THAT SIGNALS IT IS GETTING ACTUALLY REFLECT VIEWS OF RESPONSIBLE GOE POLICYMAKERS.

4. DEPSEC SAID WE REGRETTED THE CURRENT IMPASSE AND CONTINUE TO BELIEVE A MAJOR INVESTMENT IN EGYPT WOULD BE GOOD BOTH FOR US-EGYPTIAN RELATIONS AND THE DEVELOPMENT OF THE EGYPTIAN ECONOMY. PRIVATE FOREIGN INVESTMENT WILL REINFORCE THE FOUNDATION FOR EGYPTIAN ECONOMIC RECOVERY. DEPSEC AGREED THAT PROBLEMS INCLUDE NEED FOR SOME FUNDAMENTAL CHANGE IN EGYPTIAN ATTITUDES TOWARD SUCH INVESTMENT. EGYPTIANS ARE FINDING IT HARD TO TURN THE PAGE OVERNIGHT.

5. DEPSEC INDICATED BELIEF THAT THE GOE IS FOCUSING ON ELECTIONS IN OCTOBER AND DOES NOT WANT TO STIR UP PROBLEMS FROM THE LEFT WING. THE IMF DIFFICULTIES CAN BE EXPLAINED IN PART BY THE SENSE OF NERVOUSNESS THE EGYPTIANS HAVE ABOUT THESE ELECTIONS. THUS, DEPSEC NOTED IT WAS DIFFICULT TIME FOR GOE TO PRESS FOR CHANGES IN THE FOREIGN INVESTMENT LAW.

6. FORD INDICATED IT HAS LIMITED TIME FOR PROGRESS ON ITS TALKS WITH THE EGYPTIANS. THE FORD EGYPT PROJECT WILL PROVIDE ONE-THIRD OF FORD'S DORSET DIESEL ENGINES, THEREBY MAKING FORD EUROPEAN HEAVY TRUCK AND INDUSTRIAL ENGINE BUSINESS RELIANT UPON THE EGYPTIAN PLANT'S MANUFACTURING CONFIDENTIAL

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OUTPUT. IF MARKET DEMAND CONTINUES TO INCREASE IN EUROPE FOR THESE TRUCKS AND ENGINES AND PROSPECTS FOR AGREEMENT WITH GOE REMAIN UNCERTAIN AT BEST, FORD WILL HAVE TO ARRANGE FOR AN ALTERNATIVE LOCATION FOR PRODUCTION. FORD ITSELF IS NOT SURE YET WHEN DEMAND PROJECTIONS IN EUROPE WILL REACH THAT CRITICAL STAGE BUT TALKS OF NEED FOR FIRM DECISION ON EGYPT TOWARD THE LATTER PART OF THIS YEAR.

7. FORD INDICATED THAT IT DOES NOT ATTACH TREMENDOUS ECONOMIC IMPORTANCE (IN ARAB MARKETS) TO ITS REMOVAL FROM BLACKLIST, AND IMPORTANCE DECREASES EACH YEAR. FOR TRUCKS WHICH ARE THE MAIN PRODUCT IN THE ARAB WORLD, THE JAPANESE HAVE TWO-THIRDS OF THE MARKET SHARE AND THE JAPANESE MARKET

SHARE IS GROWING. HOWEVER, FORD FOR ITS WORLD-WIDE POSTURE

DOES NOT LIKE BEING ON THE BLACKLIST AND THAT IS A MAJOR CONCERN. FORD INDICATED QUITE STRONGLY IT DOES NOT VIEW ITS REMOVAL AS A RANSOM SITUATION.

8. ON THE SYRIAN INVESTMENT PROJECT, FORD SEES EGYPT AND SAUDI ARABIA AS THE KEY ACTORS ON THE ARAB SCENE. THE SYRIAN TALKS ARE VIEWED BY FORD AS A QUIETING ACTION BUT THEY COULD DEVELOP INTO A WORTHWHILE PROJECT. IN ANY CASE, SUCH A PROJECT WOULD BE COMPLEMENTARY TO THE EGYPTIAN PROJECT AND WOULD NOT REPLACE IT.

9. FORD BELIEVES THERE HAS BEEN CONFUSION AND MISUNDERSTANDING ON THE QUESTION OF ITS FINANCIAL PARTICIPATION IN EGYPT PROJECT. FORD NOTES THAT ITS POSITION FROM BEGINNING HAS BEEN CONSISTENT ON 30 PERCENT PARTICIPATION, WHICH WOULD REPRESENT ABOUT 33.0 MILLION DOLLARS OF THE TOTAL FUNDING (EQUITY AND LOANS) OF SOME DOLS 105-110 MILLION. FORD IS FLEXIBLE ON THE DEBT/EQUITY RATIO AND BELIEVES THIS HAS TO BE NEGOTIATED WITH OTHER FINANCIAL PARTICIPANTS IN THE VENTURE. HOWEVER, IT EXPECTS THAT ARAB PARTICIPANTS WILL WANT A HIGHLY LEVERAGED PACKAGE WITH A HIGH RATE OF RETURN. (FYI: WE NOTE FROM FORD BLUE BOOK ON PROJECT THAT FORD ESTIMATED THE JOINT VENTURE EQUITY CAPITAL AT ABOUT LE 6 MILLION. THIS IS FURTHER BROKEN DOWN LATER IN THE SAME BOOK AS FORD'S PAID-IN EQUITY, LE 2 MILLION (ALEXANDRIA PLANT ONE MILLION LE AND CONFIDENTIAL

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CASH ONE MILLION LE) AND EGYPTIAN AND OTHER ARAB PARTNERS LE 4 MILLION).

10. BESIDES THE DOLS 33 MILLION OF FORD'S SHARE OF THE INVESTMENT, FORD CITES SOME OTHER KEY FACTORS THAT INDICATE THE SCOPE AND SERIOUSNESS OF FORD'S COMMITMENT TO EGYPT IN THE PROJECT.

11. SUPPLY INTEGRATION - AS NOTED ABOVE, THE PROPOSED PROGRAM REQUIRES FORD TO PLACE ONE-THIRD OF ITS DORSET DIESEL ENGINE MANUFACTURING CAPABILITY IN EGYPT, THEREBY MAKING FORD EUROPEAN HEAVY TRUCK AND INDUSTRIAL ENGINE BUSINESS CONTINGENT UPON THE EGYPTIAN PLANT'S MANUFACTURING PERFORMANCE. THIS REQUIRES:

A. A COST EFFICIENT MANUFACTURING OPERATION THAT IS COMPETITIVE WITH OTHER WORLD MARKET MANUFACTURERS.

B. MANUFACTURING QUALITY EQUAL TO OR BETTER THAN OTHER WORLD MARKET MANUFACTURERS.

C. DEPENDABILITY OF SUPPLY, INCLUDING THE EFFICIENT

HANDLING OF PROBLEMS ASSOCIATED WITH THE DISTANT GEOGRAPHIC PLANT LOCATIONS.

D. COMPLETE INTERCHANGEABILITY WITH OTHER FORD-SOURCED PRODUCTS TO ENSURE CUSTOMER ACCEPTANCE OF EGYPTIAN MANUFACTURED PRODUCTS.

12. COMMITMENT OF FORD PERSONNEL RESOURCES - THE PROPOSED PROGRAM WILL REQUIRE FORD TO COMMIT A SUBSTANTIAL NUMBER OF TECHNICAL AND MANAGEMENT PERSONNEL (BOTH IN EGYPT AND OTHER LOCATIONS). THE PROPOSED PROJECT COULD REQUIRE UP TO 70 PEOPLE IN EGYPT DURING THE LAUNCH PERIOD.

13. COMMITMENT OF FORD TRAINING - THE PROPOSED PROGRAM WOULD REQUIRE FORD TO OPERATE A LARGE TRAINING PROGRAM TO TRAIN JOINT VENTURE EMPLOYEES IN TECHNICAL, MANAGEMENT, AND MANUAL SKILLS - INVOLVING TRAINING PROGRAMS BOTH ON-SITE AND AT SOURCE FACTORIES.

14. FORD COMMITMENT TO SELL EGYPTIAN PRODUCTS IN EXPORT CONFIDENTIAL

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MARKETS - THE PROPOSED PROGRAM REQUIRES A COMMITMENT BY FORD TO SELL LARGE QUANTITIES OF JOINT VENTURE PRODUCTS IN WORLD MARKETS, USING FORD TRADEMARKS. FORD ASSUMES RISKS TO FORD PRODUCT REPUTATION.

15. COMMITMENT OF FORD FINANCIAL RESOURCES - THE PROPOSED PROGRAM DIVERTS FORD FINANCIAL RESOURCES TO AN EGYPTIAN PLANT, RESULTING FRAGMENTATION OF PRODUCTION, LOSSES OF ECONOMICS OF SCALE, AND UNKNOWN RISKS - ESPECIALLY IN COSTS. (FORD NOTES IT COULD EXPAND ITS EXISTING DIESEL ENGINE MANUFACTURING FACILITIES IN THE UK BY 50,000 ENGINES, AT A FRACTION OF THE COST OF BUILDING THE FACILITY IN EGYPT.)

16. DEPARTMENT REPS DISCUSSED WITH CALDWELL ET AL HOW FORD MIGHT NOW BEST PROCEED SO AS TO CLEAR THE AIR ON EVIDENT GOE MISCONCEPTIONS OF FORD PROJECT AND ALSO TO ENABLE FORD TO PROCEED WITH NECESSARY DEGREE OF CONFIDENCE TO REVISE CURRENT PROPOSAL IN WAYS THAT MIGHT MAKE IT SATISFACTORY TO BOTH GOE AND FORD. WE MENTIONED AGAIN YOUR SUGGESTION (CAIRO 9284) OF POSSIBLE EARLY EXPLORATORY VISIT BY FORD REPS. FORD HAD BEEN MUCH IMPRESSED BY FAHMY'S OUTBURST TO YOU AND BELIEVES THAT NEXT VISIT SCHEDULE SHOULD DEFINITELY INCLUDE MEETING WITH HIM--AS WELL AS, OF COURSE, WITH GAZARINE AND SHAFEL. THEY WOULD ALSO DEFINITELY BE INTERESTED IN MEETING WITH PRIME MINISTER IF YOU CONTINUE TO FEEL THAT WOULD BE HELPFUL AND IT COULD BE ARRANGED. FORD REPS ACKNOWLEDGED THEY ARE IN A QUANDRY AS TO HOW BEST TO CLEAR THE AIR WITHOUT EXCESSIVE DELAY AND, HAVING IN MIND OBVIOUS LACK OF COORDINATION AT LOWER GOE ECHELONS, ASKED WHETHER THIS COULD REALLY BE DONE

WITHOUT INVOLVING SADAT. DEPARTMENT REPS EXPRESSED VIEW

THAT DECISION BY SADAT WILL INEVITABLY BE CRUCIAL AT SOME POINT AND THEN WENT ON TO DESCRIBE SOMETHING OF CURRENT LOCAL EGYPTIAN SITUATION INCLUDING SCHEDULED ASSEMBLY AND PRESIDENTIAL ELECTIONS AFTER THE SUMMER. WE SAID WE WOULD WISH TO CONSULT WITH YOU AS TO WHETHER IT WOULD BE DESIRABLE AND FEASIBLE TO HAVE FORD REP MEET WITH SADAT, AND IF SO, HOW THAT MIGHT BEST BE ARRANGED IN LIGHT OF THE POLITICAL IMPLICATIONS.  
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17. CALDWELL INDICATED THAT FORD WAS PREPARED TO MAKE ANOTHER VISIT TO EGYPT IN NEAR FUTURE ALONG LINES OF YOUR SUGGESTION. HE PROPOSED THAT SUCH VISIT BE PRECEDED BY RENEWED USG APPROACH TO TOP LEVEL OF GOE TO REAFFIRM IMPORTANCE WE ATTACH TO QUOTE OPEN DOOR UNQUOTE POLICY AND TO THE VALUE OF GOE'S APPROVAL ON SOME SPECIFIC MAJOR U.S. PRIVATE INVESTMENTS. IN THIS DISCUSSION, WE WOULD REITERATE TO EGYPT THE ADVANTAGES OF SUCH INVESTMENTS, USING FORD'S PROPOSAL AND OTHERS AS EXAMPLES, AND HOPEFULLY CONVINCE THESE KEY OFFICIALS THAT EGYPT SHOULD MAKE SOME CHANGES IN THE LAW TO QUOTE GET THINGS MOVING UNQUOTE WITH ONE OR MORE BELLWETHER PROGRAMS. WE NOTED THAT GOE WAS, OF COURSE, WELL AWARE OF OUR VIEWS ON THAT SUBJECT, WHICH HAD BEEN DISCUSSED WITH TOP LEADERSHIP ON NUMEROUS OCCASIONS.

18. WE WOULD APPRECIATE YOUR VIEWS IN LIGHT OF THE MATTERS COVERED IN THIS LAST MEETING WITH FORD HERE, AND PARTICULARLY YOUR SPECIFIC RECOMMENDATIONS FOR NEXT STEPS BY FORD, WITH REGARD TO AN EARLY VISIT AND OFFICIALS IT SHOULD PLAN TO MEET WITH AT THAT TIME.

ROBINSON

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